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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 001872

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STATE FOR EB/ESC/IEC/EPC

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [TC](#)

SUBJECT: OIL INDUSTRY REPS ON POTENTIAL PRODUCTION
INCREASES, ILSA

Classified By: Ambassador Michele J. Sison for reasons 1.4 (B and D)

11. (C) Summary: Western oil executives told Ambassador, at an energy roundtable, about Abu Dhabi plans to add 200,000 barrels per-day capacity over the next two years in onshore production and 150,000 capacity in the near term offshore. They agreed that Saudi ARAMCO would be able to meet Saudi Oil Minister Naimi's April 22 pledge to increase production capacity. The oil executives highlighted worldwide material and personnel capacity constraints that would affect the industry's ability to expand production rapidly. They also complained about the impact of ILSA on their ability to work in Iran. End Summary.

12. (C) During an April 26 American Business Group energy roundtable with Ambassador, representatives from several international oil companies discussed Abu Dhabi's plans to expand oil production capacity over the next few years. According to Exxon Al-Khaliij President Frank Kemnetz, Abu Dhabi plans to expand its onshore oil production by 200,000 barrels per-day over the next two years, bringing the total onshore production capacity to 1.4 mb/d. Abu Dhabi Marine Operating Company (the production company subsidiary of ADNOC responsible for offshore production) General Manager Bud Fackrell said that ADMA/OPCO had plans to expand production capacity by 150,000 barrels per day and was being asked to examine the feasibility of increasing capacity by an additional 200,000 barrels per day. Fackrell noted that some of these plans had been "on the table" for a few years, but there was increasing pressure from the Supreme Petroleum Council (SPC) and Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed to increase production capacity. ADNOC, he said, was trying to be responsive to SPC desires.

13. (C) The representatives also briefly discussed Saudi Oil Minister Ali Naimi's April 22 commitment to increase production capacity to 12.5 mb/d by 2009 and the "near term" potential of Iraq. The general consensus was that the Saudis tended to estimate conservatively the amount of oil production that they could bring on line, and that they would be able to meet the pledge (although the timeline might be slightly optimistic). Some oil executives noted that foreign participation would help ARAMCO add capacity more cheaply and more quickly, but acknowledged that ARAMCO was fully capable of acting on its own. They were more skeptical about Iraq's ability to rapidly increase production. David Muller of Safar Oilfield Services opined that there was no infrastructure in Iraq to drill new fields and that the current oil infrastructure was "literally held together with bailing wire."

14. (C) The oil and oil services company executives highlighted physical and personnel constraints that could impede rapid increases in capacity in the Gulf and world wide. They noted the limits in drilling rigs and in steel and tubing, which was a change from the situation a few years earlier. They also highlighted the lack of trained petroleum engineers and geologists. One company executive noted that the big gas projects in Qatar were driving up his cost of employment and all complained about the lack of qualified engineers to "backfill" for older engineers who were nearing retirement age. Fackrell noted that many of the petroleum engineering programs in the United States (including the one from which he graduated) were closed. Fackrell also said that there were practices specific to ADNOC that hindered its ability to rapidly increase capacity. He explained that ADNOC's procurement people "distrusted" suppliers and consistently slowed down procurements to be sure that they got the best price, not coincidentally slowing down projects. Fackrell and Kemnetz also noted that, because ADNOC had had spare capacity for several years, the "technocrats" took a very conservative attitude about reservoir management and potential expansion plans. They would not present any projects to the SPC that might threaten future production capacity. What the International Oil Companies shareholders in ADNOC were trying to do was to convince ADNOC to present the SPC with a complete set of options (i.e., we can expand production by 200,000 barrels per day quickly, but risk production declining after a few years or we can expand production by 100,000 barrels per day and it will be sustainable for 20 years.) The IOC's think that ADNOC technocrats are being too conservative and want to present the SPC with all of the options. Fackrell said that he

thought ADNOC was moving in that direction, but hadn't gotten there yet.

15. (C) Oil company representatives complained about the impact of ILSA on their ability to operate in Iran. One executive opined that the only effect of ILSA on Iran was to benefit the French. Ambassador stressed long-standing USG opposition to investment in Iran's energy sector and noted that ILSA, which provided for sanctions for certain such investments, remains U.S. law. The U.S. continued to be deeply concerned about Iranian policies and actions, particularly Iran's nuclear activities and its ongoing support for terrorism. On the FTA, most executives said that they would prefer to see the agency problem resolved, although a vocal minority, with agencies, noted that agency agreements were a two way street. The group then briefly discussed Abu Dhabi Emirate's plans to turn Abu Dhabi into a regional oil services center and a regional "clean energy" center.

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